

A M E R I C A N   I N T E R E S T S

Produced by Jefferson Communications, Inc.  
11730 Bowman Green Drive  
Reston, Virginia 22090

T R A N S C R I P T

Program # 211

Original broadcast: January 20, 1983

Executive Producer: Neal B. Freeman

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AMERICAN INTERESTS is a production of  
Jefferson Communications, Inc.  
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The Starr Foundation; the Landegger Program in  
International Business Diplomacy; the Ohrstrom Foundation,  
Inc.; and The Smith Richardson Foundation, Inc.

Transcripts prepared by T/R Services, 2000 Mercantile Bldg.  
Baltimore, Md. 21201

10:30 p.m.

THE ANNOUNCER: American Interests is made possible by grants from the Starr Foundation; the Landegger Program in International Business Diplomacy; the Ohrstrom Foundation, Inc.; and the Smith Richardson Foundation, Inc.

(Signature music.)

REP. GLENN ENGLISH (D-OKLA.): The question that we have before us is whether or not we're going to have free trade. Free trade is the issue.

PETER F. KROGH: Since the illfated protectionism of the 30's, free trade has been an article of American faith. Now that faith is being challenged, even in the halls of the U.S. Congress.

(Signature music.)

PETER F. KROGH: The volume of world trade has stopped growing. Why should we care?

First, because trade and economic growth go hand in hand. Without healthy trade, there can be no recovery from the current global recession.

And, second, because one in every five jobs in this country depends on foreign trade. But foreign trade is never popular when the national economy is ailing. In order to protect domestic jobs and industries, imports are discouraged. This is called protectionism. And protectionist sentiment is growing rapidly around the world.

In the U.S. Congress, the strongest piece of protectionist legislation since the 1930's was introduced last December. Called the Domestic Content Bill, it was directed at foreign automakers and required that at least part of each imported car be made in the U.S.A. using American parts and labor.

Supporters of the bill claimed it would shelter American jobs and encourage fair trade practices.

Opponents argued it would provoke a global chain reaction of protectionism, stifling world trade.

The Domestic Content Bill was passed by the House of Representatives, but the Senate failed to act on it before the

session ended. Protectionist sentiment continues to rise and the guess on Capitol Hill is that the bill will be reintroduced this year and the debate renewed.

REP. BILL ALEXANDER (D-ARK.): Mr. Chairman and members of the committee, I rise in support of the Domestic Content Bill which would impose trade restrictions on import of Japanese automobiles. This legislation has been called protectionist over and over and over again. And I shall point out that I am not a protectionist by nature, but let me be quite frank. In endorsing this bill, I am not voting for protection, I am voting for retaliation.

PETER F. KROGH: 215 members of the House voted for the Domestic Content Bill, a clear majority in support of the most protectionist piece of legislation in years. It isn't hard to understand why. As sales of American-made cars fell by another eight percent last year, and unemployment among auto workers alone rose to nearly 270,000, pressure to stem the flood of Japanese imports became irresistible.

In 1982, one out of every five new cars purchased by Americans was made in Japan. Although intense pressure by the Reagan Administration has forced Tokyo to scale down these exports, the ceiling remains at a hefty one and a half million cars and trucks a year. By contrast, only about 5,000 American cars are sold in Japan each year. Japanese consumers may want them, but Japanese trade barriers keep them out.

But it isn't a question only of the auto industry or only of Japan that has so aroused Congress. If it were, the Domestic Content Bill would have died quietly in committee.

Rather, it is the sense of a global assault on the very foundation of America's economic status that has incited the lawmakers.

REP. RICHARD OTTINGER (D-N.Y.): The war has already been declared and indeed is being engaged against the United States by Japan and the European countries not only in automobiles but in many other products.

PETER F. KROGH: Many of those other products come from the farm. In the agricultural sector there is no such thing as free trade. All the developed nations, including the U.S., protect their own farmers through a system of subsidies and trade barriers. But in recent years, European governments have been dumping their highly subsidized exports in world markets at cutthroat prices, threatening to squeeze out the American farmer.

Washington has threatened to retaliate by stepping up its own subsidized exports. This dispute almost wrecked the latest round of international trade negotiations in Geneva last November where a full-blown trade war between the U.S. and its allies was narrowly averted.

WILLIAM BROCK, U.S. TRADE REPRESENTATIVE: Success was only partial. We have a piece of paper that provides a picture of these four days of deliberations. Substantial gains were made in a number of key areas, but we did not achieve results on subsidies, for example. Overall, the results might earn a grade of C. It could stretch to a C-plus but only time and future action will tell.

PETER F. KROGH: The United States also faces trade challenges from the developing nations, often in its most progressive industries, such as textiles. America's textile factories are modern, their productivity probably the highest in the world. But despite this, the industry is running a trade deficit because it can't compete with low labor costs in countries like China, America's fourth largest textile supplier.

Earlier this month when trade negotiations with Peking collapsed, the U.S. announced it would restrict competitive Chinese imports. The Chinese charged protectionism and threatened trade reprisals. The U.S. government fears that without protection, textiles may share the fate of some older industries which have gone into steep decline when challenged by cheaper products from abroad.

For example, during the past 10 to 15 years production in America's footwear industry has been cut in half by imports. Robin Footwear of Pennsylvania once had two factories employing 500 people. But no longer.

RALPH RUSSO, V.P., ROBIN FOOTWEAR: Before we shut down here in October of this past year, we had about 200 people working here. The second factory in Portage was shut down and liquidated about eight years ago. That basically is, you know, the bear bones outline of the business. We got into trouble mainly because of imports.

PETER F. KROGH: Robin Footwear paid its workers about \$5 an hour. But their Korean counterparts earn only 80 to 90 cents an hour, and in China, a mere 25 cents.

GEORGE LANGSTAFF, PRES., FOOTWEAR INDUSTRIES OF AMERICA: I think we see in this situation the very real

problem that this nation faces for the future. It's not faced just by the footwear industry, but we see it all around us whether it's the steel industry, the automotive industry, radio electronics, whatever it is, we have a high labor cost country and our big challenge is going to be finding ways to keep the American worker employed at wages which he's accustomed to receiving.

PETER F. KROGH: But is protectionism the answer? The American steel industry has been one of the most protected in history, yet now with 40 percent of its work force laid off and its plants idling at 30 percent of capacity, it has become a monument to the failure of protectionist policy.

Congressional supporters of free trade think the entire economy will end up as depressed as the steel industry if protectionism becomes national policy. Even most of those who back the Domestic Content Bill seem to embrace it only out of frustration and as a last resort.

REP. GLENN ENGLISH (D-OKLA.): I hope that the Japanese government, the European governments, will get the message that free trade is the policy of the United States. We extend that policy and hope that all other countries will join with us. But if they refuse, the government and the people of the United States refuse to be patsies. We're not going to take it any longer. We can't afford it.

PETER F. KROGH: Congress is under assault from all sides on the trade issue. Industry, consumer and labor groups, even foreign trading partners, flock to Capitol Hill, each lobbying for what it considers the ideal trade environment.

We have with us two members of Congress who are deeply involved in sorting through these competing interests. Senator John Heinz, Republican of Pennsylvania, who sits on the Subcommittee on International Trade of the Senate Finance Committee. His state is host to many of the industries now suffering from the economic slump. Among them steel, footwear and agricultural.

And Congressman Barber Conable, a New York Republican, who is the ranking member of the House Ways and Means Committee.

Senator Heinz, you are on the record, I think, as saying that if the Domestic Content Bill had come your way on the floor of the Senate, you would have supported it. What lies behind that position?

SEN. JOHN HEINZ (R-PA.): Well, the bill clearly has a lot of shortcomings to it. It's not my first choice as a means of dealing with our international trade problems. But as I think was pointed out earlier, it is about one of the last remaining ways, given current law, that we have of expressing our frustration, particularly toward the Japanese who would be the most hurt by that legislation.

And the reason that the Japanese have been singled out is that they continue to enjoy, under most favored nation status in this country, a virtual free access to all our markets for their semi-conductors, for their automobiles, for their television sets.

PETER F. KROGH: For their services as well.

SEN. JOHN HEINZ (R-PA.): For everything. For everything. And any American trying to do business in Japan as an importer, exporting from this country, somebody who wants to make a direct investment, achieve an ownership position, is time after time locked out and frozen out. So the Japanese economic system, which is deeply ingrained with their social system, gains a series of rather unfair advantages which they, over time, accumulate and can turn around to great advantage to penetrate our markets.

PETER F. KROGH: So is this bill, as you see it, essentially a retaliatory measure against the Japanese?

SEN. JOHN HEINZ (R-PA.): It's a retaliatory measure. I'll tell you what it represents. It represents a failure of this country to recognize in time that the world is changing much more rapidly than we realized it would, that the period of the 70's saw not only a diminution of the economic power of the United States, a diminution that was in many respects inevitable, but that other countries' governments would become much more activist in supporting their economies.

What we have failed to do is to develop more responsible legislative approaches to dealing with the problems of industries that are going through a process of adjustment.

PETER F. KROGH: Well, let's come back to some more promising legislative approaches in a moment. But, Congressman Conable, you did have a chance to vote on this bill and you voted against it.

REP. BARBER CONABLE (R-N.Y.): Yes, I did.

PETER F. KROGH: What were your reasons?

REP. BARBER CONABLE (R-N.Y.): I think it would be counterproductive. The Domestic Contents Bill is an effort to deal with the problem legislatively. That's not the way to handle international trade. Legislation of this sort would exclude within three years all foreign cars, for all practical purposes. It would be a violation of treaties that we have solemnly entered into. It would result in additional retaliation against us in other areas through the rate of compensation which is permitted, and it would deny the American consumer to buy the type of car he or she wishes to buy.

It is much better in dealing with the problems of distortion and maladjustment that result from a surge into our market of an attractive product, the Japanese car, through negotiation, through the sort of thing that we have been doing now for two years. We have had voluntary agreements on the part of the Japanese that they would not send more than a certain number of units into this market.

PETER F. KROGH: Congressman Conable, we have had negotiation now throughout the post-war period and we find ourselves in a situation where we have a \$20 billion balance of payments deficit with Japan, we have these trade practices of theirs which do constitute barriers, as Senator Heinz pointed out. What has negotiation really achieved for us?

REP. BARBER CONABLE (R-N.Y.): Well, negotiation has achieved for us a rather healthy trade generally within the world.

If you're going to pick out Japan individually, yes, we have a big deficit, a big trade deficit with Japan. But with the world as a whole, if you were to drop out the roughly \$73 billion worth of oil that we import, we would have a big trade surplus.

American goods are competing. If you leave out a few troubled industries, they are competing very well in the rest of the world. And for us to cut ourselves out of markets that are expanding much faster than our own market generally through this type of legislation would be a serious mistake.

The negotiation that we have had has insured that the Japanese penetration of our market will not go beyond what it has. If we get an upswing in sales of automobiles, and there are many problems in the automobile industry besides imports, that American industry will have the opportunity to

participate in that if they have a good product. We ought to encourage our industry to put out a good product and not hide behind a barrier that will permit them to sell whatever they make, whether it's a good product or not. The American people deserve better than that.

PETER F. KROGH: Senator Heinz, do you believe that the American interest, particularly the American international economic interest, is fundamentally advanced by conducting our trade within a regime of international regulations, internationally negotiated, or by unilateral legislation by each country in defense of its own economic position? Isn't that basically the bottom line question for our interests at this point?

SEN. JOHN HEINZ (R-PA.): It is -- the two questions, strangely enough, are not mutually exclusive. Now, personally I believe that we should have international codes of behavior flowing from the GAT, and indeed in the Tokyo round in 1978-79 we negotiated a subsidies code, an anti-dumping code, an unfair practices code because countries were subsidizing steel exports, the Europeans have been found guilty of that. Other countries have been dumping other products in this country, and we have had findings of dumping on them. Other countries have been accused, we haven't had final findings, in shoes, for example, have been accused of unfair trading practices by virtue of all other countries having quotas against the importation of Korean shoes to Taiwan. You won't find a single Korean shoe in Japan or Taiwan or many other countries. They just won't let them in. So where do they come? They come here to the United States.

We have a structure that we're trying to build under the GAT, but as yet, frankly, there have been -- there's been very little in the way of compliance with that structure. And every time we have reduced our tariffs in order to get these codes, what has happened is nontariff barriers have been built up in response to the reduction of tariff barriers.

PETER F. KROGH: Won't legislation of the Domestic Content Bill kind bring this international structure right down around our shoulders?

SEN. JOHN HEINZ (R-PA.): It is not the best way to proceed. Unfortunately, it's the only game in town.

The better way to proceed, in my judgment, would be to enact reciprocity legislation which the Senate nearly got to the floor, the House never quite got reciprocity legislation, the principle being that you would require



reciprocal market access on some reasonable basis to deal with the problems that the Japanese, for example, inflict on us.

A still more important approach is to find a method of taking both troubled industries and industries that we're going to be counting on in the future, to give them -- either shelter it from unfair trade practices such as the Japanese are engaging in in high tech industries, or in the case of industries like steels and auto, an opportunity to adjust in a meaningful way where they would get protection for a limited period, which is GAT-consistent under the concept of the escape clause, but really make some changes.

The problem with our adjustment legislation today is it doesn't require anybody to do anything. You just get a little protection and so much for that.

PETER F. KROGH: Before we get there, Senator, we might have a bill passed that amounts to domestic content legislation, including domestic content on the construction of the roads on the bill that was passed with the gas tax.

SEN. JOHN HEINZ (R-PA.): We have already done that.

PETER F. KROGH: We have already done that. Now, what's going to happen --

REP. BARBER CONABLE (R-N.Y.): Let's not --

PETER F. KROGH: -- if this unilateral legislation continues, Congressman Conable? Have we got an international trade war on our hands, do you believe?

REP. BARBER CONABLE (R-N.Y.): I think to some degree we do right now. At a time of worldwide depression, and that's pretty much what we have got now, there's an upswing in economic nationalism. The United States should continue to take the lead, and not the lead toward hiding behind barriers.

I want to repeat: American goods are competing very well. And I want to repeat also that we are not without our remedies. The trade reform act of 1974 does provide all kinds of remedies for unfair trade practices, and they are being brought, and vigorously brought, by this Administration. They result generally in negotiated settlements of one sort or another, but that's far preferable because it stops short of the type of rigidity that brings about retaliation.

And I do believe that we must dig out of this

worldwide depression by mutual help with our trading partners rather than shutting ourselves off. We cannot start with the idea that somehow we can crouch behind our barriers and still be self sufficient.

How, for instance, do we generate the credits to buy the \$73 billion worth of oil that we're importing if we don't ship goods abroad, if we don't try to continue to repeat?

How do we sell our farm products if we're caught up in a world that's totally protectionist in its nature?

And how do we sell our manufactured goods and our capital goods which are in surplus now in the trade picture if we have built these walls?

SEN. JOHN HEINZ (R-PA.): May I --

PETER F. KROGH: Please, Senator.

SEN. JOHN HEINZ (R-PA.): -- respond to my friend Barber Conable. He's quite right in posing those questions, but they are also partly rhetorical rather than substantive because, in my view, the United States, which has been, properly, an advocate of free trade forever, ever since Britton Woods and certainly since Smoot Oley has done an important and effective job leading the world toward a freer trading system.

But what has happened and what we fail to recognize, and what many people, I think, fail to recognize is that that expansion of trade and the reduction of trade barriers is now only unilateral on our part and other countries are closing their markets and what we have to do, if we're really interested in free trade, is find a way that is not counter productive that will keep those barriers from closing, and indeed will knock them down, and it is on the issue of how we deal with that that there's enormous disagreement.

Now, my experience with the Japanese is that they negotiate, they talk, at the same time they keep shipping their merchandise.

REP. BARBER CONABLE (R-N.Y.): Oh, yes. Absolutely. And we have to deal with them vigorously. There's no doubt about that. I'm not advocating being supine in front of subterfuge on the part of the Japanese.

I will say we have a very vigorous trade with Japan even though we have a deficit. They are our third largest

customer. And what I'm afraid of is if we go the domestic contents route we'll find some of the countries that do purchase our goods in greater degree imitating that immediately. For instance, the French would just love to have a domestic contents example to emulate, and that could easily --

SEN. JOHN HEINZ (R-PA.): They do -- they do --

REP. BARBER CONABLE (R-N.Y.): -- create very serious problems for us.

SEN. JOHN HEINZ (R-PA.): As you know, they do emulate it, without legislation.

PETER F. KROGH: Isn't this a good example. The French, I think, have their imports of Japanese cars limited to three percent of their domestic market. It's up to 20 percent in our own.

SEN. JOHN HEINZ (R-PA.): And the Italians when the five thousandth Japanese car comes off the boat, just tell the boat to go to New York.

REP. BARBER CONABLE (R-N.Y.): It's all over the map in Europe. You can always find bad examples to prove your point. You can find good examples as well, however. And I must say that unless America takes the leadership with our market, it isn't going to happen.

PETER F. KROGH: How should we take this leadership? Senator Heinz has proposed --

REP. BARBER CONABLE (R-N.Y.): By continuing negotiation, and not by imposing rigid restrictions, shutting out all goods and establishing a record of exclusion --

PETER F. KROGH: Continuing --

REP. BARBER CONABLE (R-N.Y.): -- rather than outrage.

PETER F. KROGH: Continuing negotiations on what basis? Senator Heinz has suggested this reciprocity legislation that some people I think feel is a bit of a cover for protectionism.

REP. BARBER CONABLE (R-N.Y.): Yes. Reciprocity -- it depends on your -- you can use reciprocity either to close the American market or to force open other markets. A lot depends on the motivation of those who are using it.

SEN. JOHN HEINZ (R-PA.): That's correct.

REP. BARBER CONABLE (R-N.Y.): And there are two versions, and Senator Heinz has one that I think would have the effect of shutting the American market and not forcing other markets open.

I must say that we have got -- it's a difficult issue, but it's one in which the American people have a major stake. There are simply tremendous and usually very highly paid -- a tremendous number, and usually very highly paid jobs involved in the export trade. We tend to ignore that because labor-intensive industries are threatened by imports.

But in economic terms the export jobs are terribly important to this country.

PETER F. KROGH: Where is the pressure for protectionism coming from? Is protectionism what labor wants?

REP. BARBER CONABLE (R-N.Y.): Yes.

PETER F. KROGH: Is that basically it, Senator Heinz?

SEN. JOHN HEINZ (R-PA.): Protectionism is not merely what labor wants. It is a spirit that's frankly abroad in the country not just because jobs are being lost in a time of great economic difficulty, but also people feel that Uncle Sam has become Uncle Sucker and that we are not sticking up for our international rights worldwide. And the fact of the matter is that the trade barriers that have grown up are just legion and there are -- there is a school of thought that says that's all right, don't deal with it, we'll just be nice to those people and --

REP. BARBER CONABLE (R-N.Y.): I'm not advocating that, John.

SEN. JOHN HEINZ (R-PA.): I didn't say you were.

REP. BARBER CONABLE (R-N.Y.): And you --

SEN. JOHN HEINZ (R-PA.): And the school -- I didn't say you were. And the school of thought is just keep talking and they'll all go away.

Now, we have been in negotiations with the Japanese for a long time and, frankly, I've come to the conclusion that the only way we're going to get them to act is if we take an

action that they have to respond to. Now, I don't think that if you handle it right, for example through responsible reciprocity legislation --

REP. BARBER CONABLE (R-N.Y.): We're negotiating right this week.

SEN. JOHN HEINZ (R-PA.): -- that that means you start -- that that means you start a trade war. I don't want to start a trade war. I don't want to do something that's illegal under the GAT. I want to strength then the GAT but I also don't want to be sitting here 10 years from now seeing all our industries --

REP. BARBER CONABLE (R-N.Y.): You don't want to do something that's illegal to the GAT but you are saying you will vote for a bill that is illegal under the GAT.

PETER F. KROGH: Congressman Conable, how do we keep car wars from becoming kind of star wars; that is, escalating to the point of a breakdown of the international system and an outright trade war? What should we do, taking account of the domestic sentiment which Senator Heinz has described, which I think is very real --

REP. BARBER CONABLE (R-N.Y.): And our auto industry is very important to us, and that's why we have had to take some measures by forcing the Japanese to agree to voluntary restraint on imports into this country, because otherwise the dislocation resulting from unemployment in the auto industry would feed through the economy, has fed through the economy in ways that have been quite damaging.

Now, we shouldn't be surprised that we are in trouble with automobiles. To begin with, we have not accommodated to the mileage problems that go with high gasoline prices. We have been protecting steel now for a number of years and people wonder well, why are we importing our steel now in the shape of automobiles? Because you can buy steel cheaper to build automobiles abroad than you can in this country. That's why. It's a primrose path we're starting down.

SEN. JOHN HEINZ (R-PA.): I have to correct you on something. There have been, on basic steel, absolutely no protections whatsoever until the recent dumping suits were filed. There have been no quotas, no tariffs.

REP. BARBER CONABLE (R-N.Y.): What about the trigger price index?

SEN. JOHN HEINZ (R-PA.): I will grant you -- I'm sorry. I will grant you trigger prices. But that did not protect us, as you know, against Japanese competition.

PETER F. KROGH: Senator, I --

REP. BARBER CONABLE (R-N.Y.): Japanese competition was still --

SEN. JOHN HEINZ (R-PA.): -- what it did, what it did --

REP. BARBER CONABLE (R-N.Y.): -- effective.

SEN. JOHN HEINZ (R-PA.): No. The price was set at that of the most efficient Japanese producer. What it did was to legalize --

PETER F. KROGH: Do we perhaps have our eye on the wrong targets here? That is, should we be talking about how we can increase our exports instead of how we can limit our exports? Is that where the emphasis of national policy should be? And we just have a few seconds. Would you say so, Senator Heinz?

SEN. JOHN HEINZ (R-PA.): I think we should do a lot more to emphasize exports. That was the reason we all worked so hard to pass the export trading company legislation.

REP. BARBER CONABLE (R-N.Y.): John, I'm delighted that we can agree on that. It seems to me that that's terribly important. The rest of the world has markets that are expanding faster than ours. Ours are already quite saturated. American goods can compete here at home and abroad if we concentrate on being competitive and not crouching behind trade barriers.

PETER F. KROGH: Thank you very much, Congressman, Conable, Senator Heinz. I'm Peter Krogh, for American Interests.

THE ANNOUNCER: For a transcript, send \$2 to T/R Services, 2000 Mercantile Building, Baltimore, Maryland, 21201.

This program was produced by Jefferson Communications. They are solely responsible for its content. American Interests is made possible by grants from The Starr Foundation; the Landegger Program in International Business Diplomacy; the Ohrstrom Foundation, Inc.; and the Smith

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